

- Manufacturing shipments fall 0.9% in April
- 3.9 million tonnes of solid waste generated in BC in 2002
- Big decline in smoking rates since mid-1990s

The Economy

- Shipments of goods manufactured in the province slipped back 0.9% (*seasonally adjusted*) in April, after posting solid gains (ranging from 2.0% in January to 5.6% in March) in the previous three months. The decline in shipments was primarily due to a sharp drop (-10.4%) in the value of goods shipped by the paper industry. At the same time, BC wood producers saw shipments climb (+2.8%) for the fourth month in a row, as housing construction activity in both Canada and the US remained robust.

Shipments by food manufacturers were weak (-2.2%) in April but producers of most other non-durable goods made solid gains. On the durables side, the primary metals (+1.6%) and metal fabricated products (+3.0%) industries increased their shipments, but producers of computers & electronics (-2.0%), machinery (-2.0%) and transportation equipment (-14.2%) did not fare well in April.

Nationally, the value of shipments rose 0.5% in April, continuing the longest string (5 months) of consecutive gains since the late 1990s. However, the increase was well short of March's 4.0% advance, as manufacturers in virtually every region posted slower growth. BC, PEI (-4.7%), Manitoba (-5.7%) and Saskatchewan (-7.8%) all lost ground in April.

Data Source: Statistics Canada

- Sales of new motor vehicles in BC were virtually unchanged in April (+0.1%, *seasonally adjusted*), cooling off after strong growth in March (+11.5%). Sales were almost evenly split between cars (52%) and trucks (48%). North American made vehicles held 68% of the market for cars, and 87% of the market for trucks. Nationally, new vehicle sales rose 2.6%, with

every province showing higher sales.

Data Source: Statistics Canada

Government Finance

- The consolidated deficit of British Columbia's provincial and local government sector was estimated at \$2.8 billion in 2003/04, substantially less than the \$3.2 billion deficit recorded in the previous fiscal year. Total revenues of the provincial/local sector were \$36.0 billion, most (\$31.8 billion) of which came from taxes, other transfers from individuals and businesses (such as health care premiums and licence fees) and investment income. The federal government was the source of another \$4.2 billion of revenues to the provincial/local sector. Of the \$38.9 billion expenditures made by the provincial/local government sector in BC, some \$2.9 billion went to pay interest charges on the public debt, marginally less than in the previous year, when debt charges were \$3.0 billion. Health care (\$12.0 billion), education (\$8.3 billion) and social services (\$4.7 billion) accounted for the lion's share of spending in 2003/04.

Data Source: Statistics Canada, Public Institutions Division

These figures differ from the information in the provincial/local Public Accounts because Statistics Canada uses a broader definition of the provincial/local government sector that includes all government ministries and agencies, as well as hospitals, schools and post-secondary institutions controlled by government. Consolidation of the data removes transfers between entities within the sector.

Waste Management

- Households and businesses in BC generated 3.9 million tonnes of solid waste in 2002, representing 936 kilos per person. This is an increase of 2.4% from 2000.

Of the total waste generated in BC, 29% was recycled. This was the highest rate of waste recycling in the country, well above the national average (21%). However, the tonnage

Did you know...

In 2002, more than half (54%) of BC households had a cellular telephone. Cell phones were most popular in Alberta, where 61% of households had a wireless phone.

of recycled material per capita in BC has fallen 3% since 2000. In contrast, across Canada as a whole, per capita recycling rose 5% over the same period.

The highest level of waste generation was in Alberta, followed by Quebec. Both provinces generated about 1.1 tonnes of solid waste per capita – roughly 20% more than in BC.

Data Source: Statistics Canada

Tourism

- **Traveler entries to Canada via BC increased 1.5% (seasonally adjusted) between March and April, largely because entries from overseas sources advanced 4.9%.** Asian entries (+3.5%) rose again in April, with strong gains from Taiwan (+9.5%) and South Korea (+12.7%), but the number of visitors arriving from Europe was down (-1.0%) for the fourth time in the last five months.

Entries from the US edged up 0.8% with most of the gain coming from overnight travel.

The number of Canadians returning home via BC was virtually unchanged (+0.1%) in April. Same-day auto trips increased (+1.2%) for the third straight month. However, there were 1.2% fewer Canadians returning home via BC from overseas trips. *Data Source: Statistics Canada & BC Stats*

Smoking

- **Young adolescents in BC are much less likely to smoke now than in 1994.** Among youth in grades 5 to 9 (roughly age 10 to 14) only 3.9% were current smokers in 2002. (Current smokers are defined as those who smoked in the past 30 days.) Smoking was more than three times more common among this group in 1994, when 12.5% were smokers.

The smoking rate among young adolescents in BC (3.9%) was the second lowest in Canada, next to Ontario (3.3%). The highest rate was in Quebec, where 12.2% of young adolescents were smokers. Nationally, the average was 6.2%.

Three out of four youth (grades 7 to 9) who had either experimented with smoking or were current smokers had also used marijuana. This compares to just 3% of those who had never

tried smoking cigarettes. Alcohol use was also more prevalent (92%, compared with 40%) among youth who smoked. *Data Source: SC, The Daily*

- **Smoking rates have declined substantially since 1994, when 19.9% of British Columbians aged 12 and over were daily smokers.** Last year, 14.0% of the population were daily smokers, less than in any other province. The Canadian average declined from 24.3% to 17.8% during the same period. Smoking continues to be most prevalent in eastern Canada. New Brunswick (21.6%) and Quebec (20.7%) have the highest rates in the country.

Data Source: SC, The Daily

Health

- **Only 2.9% of British Columbians were unable to find a regular medical doctor in 2003, one of the lowest proportions in the country.** However, this still represents over 100,000 people searching for and unable to find a regular doctor.

Across the country, the doctor shortage was most serious in Quebec, where 7.7% of the population could not find a regular doctor. Nationally, the proportion was 4.7%.

While 1.2 million Canadians were unable to find a regular doctor in 2003, more than twice as many (9.2% of the population) hadn't looked for one. Quebecers (17.6%) were least likely to have sought out a GP, followed by residents of Alberta (12.4%). In BC, 7.7% of the population did not have a doctor because they had not looked for one.

People who do not have a regular doctor are 3.5 times more likely than those who have one to end up seeking care in the emergency room.

Data Source: SC, The Daily

Sexual Orientation

- **About 1.9% of British Columbians considered themselves to be either homosexual or bisexual in 2003.** Nationally, 1.7% of the population identified with this group. The proportion was highest in Quebec (2.3%) and lowest (just over one percent) in Alberta, Saskatchewan and parts of Atlantic Canada.

Data Source: SC, The Daily

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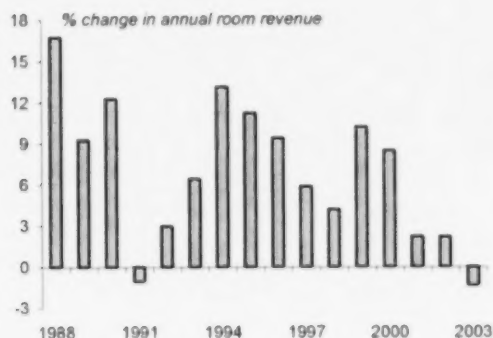
BC's Tourism Sector: Navigating Through Stormy Waters

The tourism sector in British Columbia faced a difficult year in 2003. In this issue we look briefly at the year in review, as well as prospects for 2004. In the following section, we provide a more in-depth report on the hotel sector, highlighting the considerable changes the industry has seen in recent years.

2003 in Review: Troubles in Tourism

Tourism room revenue edged down 1.4% in 2003, declining for the first time in over a decade. This reflects major disruptions in the global tourism industry last year, including the SARS outbreak and the war in Iraq.

Room revenues decline for the first time since 1991



Data Source: BC Stats

The Mainland Southwest region—Greater Vancouver and its surrounding areas—was hardest hit by the downturn. Room revenues in that region fell 4.7%. Declines also occurred in Cariboo (-3.3%) and North Coast (-1.2%). However, if one excludes the Mainland Southwest, room revenues for the rest of the province were up 3.0%.

By accommodation type, large hotels with more than 150 rooms saw the steepest decline in revenues (-5.4%). Most of the large hotels in BC are located in Mainland Southwest. Revenues at small hotels (1-75 rooms) were unchanged from 2002. Vacation rentals, such as beach houses and the like, saw revenues climb 6.1%.

Visitor Entries Down

The number of travellers entering Canada via BC ports of entry dropped sharply in 2003. From the US, entries were down 7.0%, and from overseas the number of visitors fell 12.6%. In the wake of the SARS outbreak, entries from Asian countries plummeted 24.4%.

Passenger traffic at the Vancouver airport was down 3.7% in 2003, reflecting a drop in both domestic (-2.1%) and international (-5.4%) travellers. However, passenger traffic through BC's regional airports rose 7.0%. This mirrors the regional pattern of room revenues, with a downturn in the Vancouver area but continued growth in the rest of BC.

Employment Inches Up

In spite of the difficult year, employment in key tourism industries rose slightly in 2003. In particular, there was strong employment growth in arts, heritage and entertainment (+6.8%), as well as air transport (+4.4%)—which posted gains for the first time in five years. Offsetting this were small declines in accommodation (-0.7%) and food & beverage service (-0.3%).

Looking Ahead

The BC tourism industry would seem to be headed for a much better year in 2004. Room revenues and other tourism indicators were already recovering by the middle of last year.

Room revenues began to recover last summer



Data Source: BC Stats

Seasonally adjusted room revenues bottomed out in June 2003, and increased more or less steadily in the following months. By last December, room revenues had exceeded the levels of 2002. As well, traffic at the Vancouver airport has fully recovered from the 2003 downturn. Visitor entries have also rebounded, though they are lingering at about 10% below their historic levels

BC's Hotel Industry: Charting A New Business Model?

British Columbia's hotel and motel industry has grown considerably in recent years, both in terms of rooms and revenues. However, the industry also faces certain stumbling blocks, such as rising prices for consumers and a growing volume of unused room supply. This report follows economic trends in the hotel and motel industry from 1995 to 2003.

Increasing room supply

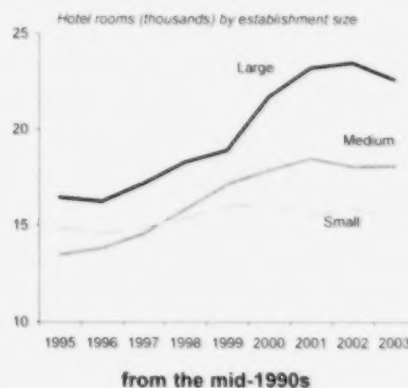
The number of hotel and motel rooms in the province has increased 18% over the last eight years. There were roughly 78,400 hotel and motel rooms in BC in 2003, nearly 12,000 more than in 1995.

This has been due, for the most part, to the establishment of more large hotels. For hotels with more than 75 rooms, there was a 36% increase in the room count. The number of rooms at small hotels grew only 5%, and at motels

room growth was only 2%. The average number of rooms per property has increased from 49 in 1995 to 56 in 2003 (+15%).

Overall, the industry has expanded, and accommodation providers are running larger operations than in the mid 1990s.

Supply of hotel rooms up



from the mid-1990s

Data Source: BC Stats

In spite of increasing room supply, hotel prices have been increasing over the same period. In 1995, average hotel room prices were \$92 per night. By 2003, the average hotel price was \$115, a 25% increase. This is well above the overall rate of inflation in BC, which has totalled 12% since 1995.

Other things being equal, an increase in room supply should lead to lower prices, as more and more hotels compete for the same number of travellers. Instead, the hotel sector has opted to keep prices high and settle for a lower occupancy rate.



Data Source: Pannell Kerr Foster & BC Stats

Average annual occupancy in the hotel sector has dropped from 68% in 1995 to 58% last year, down roughly 10 percentage points. The highest occupancy rate recorded in the last eight years was 90%, in August 1995. For the last 6 years monthly occupancy has never exceeded 80%. There is significant unused room capacity, even in the peak summer months.

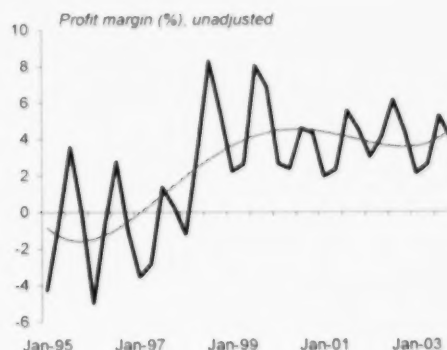
In short, while room supply has increased over the years, the estimated number of occupied rooms is practically unchanged (+1%).

An overall measure of financial performance—combining issues of price and occupancy—is revenues per room. It appears that the recent combination of higher prices and lower occupancy is paying off for accommodation providers. Revenues per room among hotels/motels have increased 18% since 1995.

The largest hotels have seen the weakest revenue performance. Hotels with more than 150 rooms have seen revenues per room rise only 7%, compared with 16% at small hotels (1-75 rooms). Large hotels had the greatest increase in room capacity over the last eight years, and are facing tighter competition.

Data on profit margins are not available for the BC hotel industry. However, some rough indication can be gleaned from the national accommodation and food service industry. These data suggest that the industry has seen significant improvements in its operating profit margin. The industry was posting modest operating losses from 1995-97, with a three-year average loss of 0.8% of revenues. Since 1998, operating profits have averaged 4.0%.

Nationally, profits in accommodation and food service are up from the mid-1990s



Data Source: SC, Catalogue no. 61-008-XIE

Employment levels flat

In contrast to room supply, revenues, and profits, employment in the accommodation industry has been relatively flat in recent years. The accommodation industry had 29,000 employees in 2003. This is up 5% from 1995, but employment peaked in 1996 and has been in slow decline since then.

Minimal employment gains, combined with expanding room supply, suggest that the industry has scaled down its use of labour. Indeed, the number of workers *per 100 rooms* dropped to 37 last year, down from 41 in 1995 (-11%). This is consistent with the decline in occupancy rates—lower occupancy requires fewer cleaning and service staff.

All of this means that the hotel/motel industry has been able to boost its revenues without needing significant increases in employment. Thus, revenues per worker have increased sharply.

Average revenues per worker in 1995 were \$2,760 per month. By last year, revenues per worker had risen to \$3,660 per month—up 32%.

Monthly earnings lag behind room revenues



Data Source: BC Stats and Statistics Canada

Average monthly earnings have also increased, but not by the same degree. In 1995, average earnings were \$1,496 a month. By 2003, earnings had risen 6%, to \$1,581 a month.

The net result of these trends is that workers are earning a declining share of room revenues. In 1995, labour earnings represented 54% of room revenues per worker. By 2003, earnings had dropped to 42% of revenues per worker.

Employees earn a declining share of revenues



Data Source: BC Stats and Statistics Canada

Conclusion

There have been considerable changes in the BC hotel industry over the last eight years. Total room supply is up 18%, representing almost 12,000 more rooms. At the same time, occupancy rates have dropped to 58%, down 10 percentage points. This has left a considerable volume of unused capacity in the hotel industry.

A key factor in this unused room capacity is the 25% increase in average hotel prices over the last eight years. Consumers today are paying considerably more for accommodation in BC.

At the same time, revenues per worker have been growing much faster than employee earnings, and workers are receiving a declining share of revenues.

Indeed, there seems to be a new "lean" business model emerging in the hotel industry. Occupancy is low, but prices are rising and labour costs have been held in check. Accommodation providers—even in the peak season—are not operating at full steam, but their financial performance does not seem to have suffered for it.



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BC at a glance . . .

POPULATION (thousands)				% change on one year ago
	Jan 1/04			
BC	4,168.1			1.0
Canada	31,752.8			0.9
GDP and INCOME				% change on one year ago
(BC - at market prices)	2003			
Gross Domestic Product (GDP) (\$ millions)	142,418			5.1
GDP (\$ 1997 millions)	130,914			2.2
GDP (\$ 1997 per Capita)	31,572			1.4
Personal Disposable Income (\$ 1997 per Capita)	19,495			-0.4
TRADE (\$ millions, seasonally adjusted)				% change on prev. month
Manufacturing Shipments - Apr	3,389			-0.9
Merchandise Exports - Apr	2,464			0.5
Retail Sales - Mar	3,613			2.1
CONSUMER PRICE INDEX				12-month avg % change
(all items - 1992=100)	Apr '04			
BC	122.4			1.6
Canada	123.9			1.8
LABOUR FORCE (thousands)				% change on prev. month
(seasonally adjusted)	May '04			
Labour Force - BC	2,227			0.8
Employed - BC	2,053			0.7
Unemployed - BC	174			1.3
	Apr '04			
Unemployment Rate - BC (percent)	7.8			7.7
Unemployment Rate - Canada (percent)	7.2			7.3
INTEREST RATES (percent)			Jun 16/04	Jun 18/03
Prime Business Rate	3.75			5.00
Conventional Mortgages - 1 year	4.70			4.85
- 5 year	6.70			5.80
US/CANADA EXCHANGE RATE			Jun 16/04	Jun 18/03
(avg. noon spot rate) Cdn \$	1.3773			1.3342
US \$ (reciprocal of the closing rate)	0.7275			0.7483
AVERAGE WEEKLY WAGE RATE				% change on one year ago
(industrial aggregate - dollars)	May '04			
BC	671.73			-1.8
Canada	680.24			2.6

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada
 Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics
 For latest Weekly Financial Statistics see www.bankofcanada.ca

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Next week

- Consumer Price Index, May, 2004
- Current Statistics, June 2004